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Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 IGA-02 IO-13 /093 W
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R 230617Z AUG 77
FM AMEMBASSY COLOMBO
TO SECSTATE WASHDC 7982

C O N F I D E N T I A L COLOMBO 3073

E.O. 11652: GDS
TAGS: EINV, EAID, EFIN, CE

SUBJ: CALL ON FINANCE MINISTER DE MEL

1. SUMMARY: MY FIRST DISCUSSION WITH FINANCE MINISTER RONNIE DE MEL ON AUGUST 22 ELICITED HIS COMMENT UPON THE NEED TO RESTORE EFFICIENCY TO EXISTING STATE AND PRIVATE SECTORS, AS WELL AS THE MINISTRIES. HE HOPES FOR IMF/IBRD UNDERSTANDING, FOR AMERICAN PRIVATE INTEREST IN PROPOSED FREE TRADE ZONE, AND FOR OPPORTUNITY TO SEE SENIOR OFFICIALS WHEN IN WASHINGTON FOR BANK/FUND MEETINGS. SRI LANKA WOULD WELCOME AN AMERICAN BANK. HE WOULD LIKE A BRIEFING ON AID PROGRAMS HERE. END SUMMARY.

2. IN WIDE RANGING DISCUSSION AUGUST 22 WITH RONNIE DE MEL, NEW FINANCE MINISTER, HE GAVE HIGH GRADE DIAGNOSIS OF SRI LANKAN ECONOMIC PROBLEMS: APART FROM DETERIORATING TERMS OF TRADE, EXCEPT FOR PAST TWO YEARS OF TEMPORARILY FAVORABLE TEA AND RUBBER PRICES, THE ECONOMY GRADUALLY "RAN DOWN" OVER LAST SEVEN YEARS DUE TO IDEOLOGICAL PREFERENCES FOR STATE ENTERPRISES WHICH WERE OVER-MANNED AS A SOP TO UNEMPLOYMENT, CORRUPTLY RUN AND SEVERLY UNDER-UTILIZED. SINCE IMPORTED AND DOMESTIC RAW MATERIALS WERE DIVERTED FROM MORE EFFICIENT
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PRIVATE SECTOR TO PUBLIC ENTERPRISES, MANY PRIVATE PLANTS ALSO HAVE BEEN ONLY 40 PERCENT UTILIZED. DIVISION OF RESPONSIBILITY AND JOBS TO INCOMPETENTS HAVE GRAVELY HARMED ESTATE SECTOR. "THE GOOD BUREAUCRACY WE USED TO HAVE HAS BEEN RUINED BY POLITICAL APPOINTEES, OVERSTAFFING, AND LACK OF MINISTERIAL FOLLOW-THROUGH."

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3. DE MEL SAID THE GOVERNMENT PLANS TO PUSH HARD TO CORRECT WEAKNESSES IN MANAGEMENT OF ESTATE SECTOR, TO MAXIMIZE UTILIZATION OF INDUSTRIAL PLANT ALREADY IN PLACE, REACTIVATE MORE EFFICIENT DISTRIBUTION SYSTEM INVOLVING COMPETITION BY PRIVATE COMMERCE, BREAKING MONOPOLY OF THE INCOMPETENT AND CORRUPT OFFICIAL COOPERATIVE DISTRIBUTION SYSTEM. IMPLEMENTATION OF POLICIES DECIDED UPON WILL HAVE HIGH PRIORITY WITH THIS GOVERNMENT COMPARED TO PREVIOUS GOVERNMENTS WHERE DETAILED MINISTERIAL FOLLOW-THROUGH WAS EXCEPTION.

4. COMMENT: ALL THIS SOUNDS FINE AND WE WILL HAVE TO SEE HOW THESE SPLENDID SENTIMENTS ARE TRANSLATED INTO A PACKAGE OF SPECIFIC POLICIES AND ACTION STEPS.

5. HE HOPES BANK/FUND UNDERSTAND ENOUGH OF THE POLITICAL IMPERATIVES HERE (A PHRASE HE USED THREE TIMES) NOT TO DEMAND ELIMINATION OF FOOD SUBSIDIES, SUPPORT TO HEALTH, EDUCATION, ETC., SINCE NO GOVERNMENT REGARDLESS OF PARLIAMENTARY MAJORITY CAN WITHDRAW THESE AND SURVIVE. I OBSERVED THAT NEW AID DIRECTIONS AND MACNAMARA CONCERN FOR "POOREST OF THE POOR" SUGGESTED BANK AT LEAST NOT AS DOCTRINAIRE AS EARLIER. BUT I STRESSED ON THE OTHER HAND, MY BELIEF THAT THE BANK DOES HOPE TO SEE EVIDENCE OF VIGOROUS IMPLEMENTATION OF NEW MORE RATIONAL ECONOMIC POLICIES AND CLEARER SENSE OF PRIORITY.

6. DURING TIME IN NEW YORK DE MEL HOPES TO INTEREST BUSI-
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NESSMEN IN THE FREE TRADE INDUSTRIAL ZONE. I NOTED THAT CITIBANK HAD SHOWN INTEREST IN OPENING A LOCAL OFFICE, BUT BANK NATIONALIZATION UNDER PREVIOUS GOVERNMENT SCARED THEM AWAY. HE EXPLICITLY CONFIRMED "AN AMERICAN BANK WOULD BE WELCOMED HERE. WE CAN'T EXPECT FOREIGN INVESTMENT IF THERE IS NO FOREIGN BANK HERE TO FACILITATE SUCH ACTIVITY."

7. HE EXPRESSED HALF-HEARTEDLY HOPE OF SEEING SECRETARY VANCE SINCE HE WAS FIRST MINISTER OF NEW GOVERNMENT TO VISIT WASHINGTON, BUT HE READILY AGREED VANCE FAR TOO BUSY WITH EXHAUSTING TRAVEL SCHEDULE. REMINDED THAT SOME 140 DELEGATIONS DESCEND ON WASHINGTON, HE CONCURRED IT WAS MORE IMPORTANT FOR HIM TO SEE THOSE WHOSE RESPONSIBILITY DIRECTLY RELATED TO AID AND INTERNATIONAL FINANCIAL CONCERNS. I SUGGESTED UNDER SECRETARY COOPER IN STATE, BERGSTEN IN TREASURY, DUBS AND LANDE IN NEA, AS WELL AS BANK AND FUND OFFICIALS ABOUT WHOM I DID NOT SPECULATE. I ALSO RECOMMENDED A VISIT TO NEW YORK IMMEDIATELY FOLLOWING BANK/FUND MEETINGS AND RETURN TO WASHINGTON A WEEK OR SO LATER, GIVING THE TOWN TIME TO RECOVER FROM THE SWARMING FINANCIAL DELEGATIONS AND TO IMPROVE THE CHANCES HE COULD SEE THOSE HE REALLY WANTED TO SEE.

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8. HE READILY AGREED TO MY SUGGESTION THAT OUR AID REPRESENTATIVE, TOM ARNDT, COME TO DISCUSS U.S. AID PROGRAM HERE AND EVOLVING PERSPECTIVES IN WASHINGON; APPOINTMENT TO BE ARRANGED IN ABOUT A WEEK.

9. WE AGREED TO KEEP IN CLOSE TOUCH, AND AT DINNER AT RESIDENCE WEDNESDAY, AUGUST 24, FOR AMBASSADOR WELLS AND PETREE WE WILL PURSUE FURTHER.
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TAGS: EINV, EAID, EFIN, CE, IBRD, IMF, (DE MEL, RONNIE), (WRIGGINS, W HOWARD)
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